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SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER

April 8 2005 ISSUE

11. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Unemployment Rates Drop;
- Increase in Jobs and Earnings;
- March Manufacturing Activity Reaches Six-month High;
- Extra Tax Revenue Reduces Budget Deficit;
- But How Should the Revenue Surplus Be Spent?;
- March Housing Prices Lower; and
- First Signs of Consumer Spending Slowdown.

End Summary.

UNEMPLOYMENT RATES DROP

12. The Statistics SA Labor Force Survey (LFS) showed a gain of 251,000 jobs and a drop in the official unemployment rate from 27.9 percent in March 2004 to 26.2 percent in September. Using the expanded definition of unemployment, which includes discouraged workers or those who made no effort to seek employment in the four weeks preceding the survey, the unemployment rate changed from 41.8 percent in March to 41 percent in September. The number of discouraged workers increased from 3.77 million in March to 3.95 million six months later. The biggest growth in jobs came in the construction (25 percent) and trade (8 percent) sectors, which have benefited from low interest rates. Impacted by the strong rand and drought, the mining and agriculture sectors experienced employment reductions of 27.5 percent and 15.5 percent, respectively, in the six-month period. Excluding agriculture, employment levels increased by 209,000 and 180,000 jobs in the formal and informal sectors respectively, between March and September 2004. Non-agricultural employment in the informal sector accounted for 19 percent of total employment; if domestic workers are included, the percentage increases to 27 percent. The LFS shows that youth unemployment has fallen but remains high. Unemployment among 15- to 24-year olds, the fastest growing segment of the population, fell from 55.6 percent in March to 51.8 percent in September. Unemployment remains highest among Black Africans, at 31.3 percent, followed by "coloureds", at 21.8 percent, Indians and other Asians at 13.4 percent and whites, at 5.4 percent. The Western Cape Province had the lowest unemployment at less than 20 percent, while Limpopo, North West, KwaZulu-Natal and the Eastern Cape provinces had levels of more than 30 percent. Gauteng provided most of the employment opportunities, with about three million jobs, while the Northern Cape provided about 230,000 jobs. Source: Business Day, April 1; Mail & Guardian, April 1-7; Statistics SA, Release P0210, March 31.

INCREASE IN JOBS AND EARNINGS

13. Statistics SA's Survey of Employment and Earnings (SEE) showed a 4 percent y/y rise in employment while earnings increased by 14.9 percent in the formal, nonagricultural sector in the fourth quarter of 2004. The SEE counted 6.685 million jobs in the formal sector as of December 2004, an increase of 85,000 (1.3 percent quarterly growth) over September's employment. The highest level of job creation occurred in the wholesale and retail trade sectors followed by the personal services and financial sectors, explained by high growth in domestic demand. Gross earnings increased 11 percent (q/q) in the fourth quarter 2004, resulting in a 9.6 percent increase in the average earnings per employee. Labor representatives noted the progress in employment but argue that these figures are at least six months out of date. Figures provided by trade unions show that more than 20,000 workers across various sectors will be laid off with most of the job cuts taking place by the end of April. The mining industry is hardest hit, with more than 10,000 jobs removed and the clothing and textile sector,

due to cheaper imports, will lose 2,750 jobs in addition to the 3,100 jobs already lost since January 2005.
Source: Business Day, April 1; Mail & Guardian, April 1-7; Statistics SA, Release P0275, March 31.

14. Comment. In March, Stats SA released both the LFS and SEE surveys simultaneously, although the coverage of employment is quite different. LFS is a semi-annual household survey, based on a nationwide sample of over 30,000 households. Stats SA staff interviewed more than 68,000 adults of working age face-to-face. The survey reveals information on household employment in both the formal and informal sectors, as well as discouraged workers. Business included in the LFS is based on a sample updated by Census 2001 and consists of all businesses, whether VAT registered or not. SEE is a quarterly survey of 10,183 VAT-registered (and VAT-paying) private and public businesses in the non-agricultural sector, completed by mail. Because of changes in the survey sample, there is no official SEE data before 2002. Stats SA uses 2000 and 2001 SEE data only in discussion documents, since about 1.5 million more jobs were recorded in 2002 over 2001 as a result of the changes in survey design. End Comment.

MARCH MANUFACTURING ACTIVITY REACHES SIX-MONTH HIGH

15. The March Investec Purchasing Managers Index (PMI) shows manufacturing activity has risen to its highest level in six months. The PMI increased to 57.9 points in March, from 54.2 in February and 49.3 in January. A drop below 50 points indicates a contraction in the manufacturing sector, while one above this level indicates growth. The expected business conditions index, which records purchasing managers' outlook for the next six months, reached 71.5 compared to February's 66.3, and 8 percent of managers expect a drop in general business conditions compared to February's 14 percent. Better than expected business conditions and the softer exchange rate explains improving expectations, with the rand depreciating about 9 percent against the U.S. dollar since the beginning of the year. The seasonally adjusted employment index reached 57 points compared to February's 48.9; however, subsequent above-50 levels are needed for improving manufacturing employment. New sales orders also improved, reflecting strong consumer demand and improving exports. Source: Reuters and Business Day, April 4.

EXTRA TAX REVENUE REDUCES BUDGET DEFICIT

16. The estimated deficit in 2005's budget has been reduced from 2.3 percent to 1.6 percent of gross domestic product (GDP) due to the almost R10 billion (\$1.6 billion, using 6.1 rands per dollar) in surplus revenue collected by the South African Revenue Services (SARS) in the 2004/05 fiscal year (ending March). The revenue collected by SARS was R9.6 billion more than the previous revenue target of R345.3 billion announced in October 2004 and R21 billion more than the original revenue target of R333.7 billion announced in February 2004. SARS collected R110.7 billion in personal income tax compared with the R105.9 billion estimate; R70.6 billion in company taxes (R68.8 billion estimate); R97.8 billion in VAT (R89.5 billion estimate); R18.8 billion in fuel levies (R17.4 billion estimate); R13.1 billion in customs duties (R9.5 billion estimate) and R7.1 billion in transfer duties (R5.2 billion estimate). A further R14 billion in excise duties was collected, which was in line with estimates. Finance Minister Trevor Manuel cited a buoyant economy and significant consumer spending as key contributors to the improved revenue collection during the past year. Source: Business Report and Business Day, April 4.

BUT HOW SHOULD THE REVENUE SURPLUS BE SPENT?

17. News of the government's revenue surplus has generated disagreement over how the excess funds should be used. Analysts suggest that the government is likely to use the revenue surplus to reduce the amount borrowed on local bond markets, reducing the government's local borrowing requirement to R7 billion (\$1.1 billion, using 6.1 rands per dollar). Interest groups differ regarding their preferred method of revenue surplus disbursement, with suggestions ranging from increased infrastructure investment and social development to reductions in current tax rates. Strong consumer spending explains much of the increased revenue yielding higher than expected VAT revenues. VAT revenues are now 28 percent of the total revenue collected, up from 25 percent in FY2003. Efficient Group economist Dawie Roodt suggested that the FY2005 budget deficit could be as low as 1.1 percent of GDP, rather than the 1.6 percent forecasted by National

Treasury. Source: Business Day, April 6.

MARCH HOUSING PRICES LOWER

18. South African house prices increased by 26.8 percent (y/y) in March 2005 compared to February's 29 percent increase and September 2004's increase of 35.5 percent, according to ABSA Bank's monthly House Price Index (HPI). ABSA attributes the current declining trend in prices to less housing affordability because of the high increase in prices, salary and wage increases of well below 10 percent and the relatively stable interest rates in 2004. In addition, the difference between asking and selling prices has increased and properties are remaining longer on the market before being sold. ABSA expects nominal growth in house prices of between 15 percent and 20 percent, with real growth in housing prices between 11.7 percent and 16.5 percent in 2005. ABSA pointed out these favorable property market developments: (1) personal tax relief; (2) lower transfer duties on property; (3) strong growth in the real disposable income of households; (3) a relatively low ratio of household debt to disposable income; (4) relatively low inflation and interest rates; and (5) strong domestic and foreign demand. In 2004, housing prices grew by 32.2 percent, 21.4 percent in 2003, and 15.2 percent in 2002. Source: IOL, April 5; Business Report, April 6.

FIRST SIGNS OF CONSUMER SPENDING SLOWDOWN

19. The latest Bureau of Economic Research (BER) retail survey suggests that retail, wholesale and vehicle sales growth peaked during the 4th quarter 2004 and will start to slow during the first quarter of 2005. The survey showed a dip in retailers' confidence during the first quarter from a 24-year high of 90 index points in the final quarter 2004 to 75 points in the first quarter 2005. Wholesaler's confidence levels also declined in the first quarter 2005. The lower level of business confidence during the first quarter of 2005 supported the BER's earlier view of a slightly lower rate of increase in consumer spending this year, after growing more than 10 percent last year. Sales growth slowed slightly in all three retail sales categories, namely non-durable goods (food, beverages and pharmaceuticals), semi-durables (clothing, footwear, textiles and household requisites), and durables (furniture, appliances and electronic equipment), with non-durable goods showing the largest slowdown in growth. The BER also found that expectations of increases in selling prices did not occur, with the majority of retailers lowering their selling prices during the first quarter. Source: Business Report, April 6.

FRAZER